

TOWN OF GENOLA

FINANCIAL STATEMENTS

JUNE 30, 2005

TOWN OF GENOLA

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INDEPENDENT AUDITOR'S REPORT

Honorable Town Council
Town of Genola
Genola, UT

November 30, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Genola as of and for the year ended June 30, 2005 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Genola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Genola as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2005, on our consideration of the Town of Genola's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Genola, we offer readers of Genola's financial statements this narrative overview and analysis of the financial activities of the Town of Genola for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements that follows this section.

FINANCIAL HIGHLIGHTS

- The total net assets of the Town increased \$132,466 (4.8%) to \$2,873,325. The governmental net assets increased by \$2,373 and the business-type net assets increased by \$129,729.
- The total net assets of \$2,873,325 are made up of \$2,166,761 in capital assets net of related debt and \$706,564 in other net assets.

REPORTING THE TOWN AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the Town of Genola's basic financial statements. Genola's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Genola's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Genola's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Genola is improving or deteriorating. However, you will also need to consider other non-financial factors.

- *The statement of activities* presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Genola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Genola also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Capital Projects Fund.

- **Proprietary funds** - The Town of Genola maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Genola uses enterprise funds to account for the Water Utility. As determined by generally accepted accounting principles, the Water enterprise fund meets the criteria for major fund classification

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case Genola's assets exceed liabilities by \$2,873,325.

By far the largest portion of Genola's net assets (75.4%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the Town of Genola's net assets

Net Assets

June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	516,937	558,077	238,180	225,130	755,117	783,207
Capital assets	895,411	842,451	1,272,850	1,157,671	2,168,261	2,000,122
Total assets	1,412,348	1,400,528	1,511,030	1,382,801	2,923,378	2,783,329
Other liabilities	48,553	39,470	1,500	3,000	50,053	42,470
Long-term liabilities outstanding	0	0	0	0	0	0
Total liabilities	48,553	39,470	1,500	3,000	50,053	42,470
Net assets:						
Invested in capital assets, net of related debt	895,411	842,451	1,271,350	1,154,671	2,166,761	1,997,122
Restricted	42,997	66,030	138,677	142,923	181,674	208,953
Unrestricted	425,387	452,577	99,503	82,207	524,890	534,784
Total net assets	1,363,795	1,361,058	1,509,530	1,379,801	2,873,325	2,740,859

The following table summarizes the Town of Genola's Changes in Net Assets.

Changes in Net Assets

June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	109,867	65,481	88,864	90,541	198,731	156,022
Operating grants and contribs	55,481	45,801	0	0	55,481	45,801
Capital grants and contribs	119,238	178,055	163,500	184,889	282,738	362,944
General revenues:						
Property taxes	44,436	42,241	0		44,436	42,241
General sales and use tax	91,540	73,369				73,369
Franchise tax	69,040	18,226				18,226
State Liquor Tax	685	725	0		685	725
Unrestricted investment earnings	11,774	8,496	4,133	2,507	15,907	11,003
Other		13,716	0		0	13,716
Total revenues	502,061	446,110	256,497	277,937	597,978	724,047
Expenses:						
General government	120,104	122,197			120,104	122,197
Public safety	140,063	124,759			140,063	124,759
Highways and public works	112,714	66,735			112,714	66,735
Parks and recreation	126,443	85,816			126,443	85,816
Interest on long-term debt	0				0	0
Water Utility			126,768	111,600		111,600
Total expenses	499,324	399,507	126,768	111,600	499,324	511,107
Increase in net assets	2,737	46,603	129,729	166,337	98,654	212,940
Net assets - beginning	1,361,058	1,314,455	1,379,801	1,213,464	2,740,859	2,527,919
Net assets - ending	1,363,795	1,361,058	1,509,530	1,379,801	2,839,513	2,740,859

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the Town's financing requirements. As of the June 30, 2005, the Town's governmental funds (General & Capital Projects) reported combined fund equity of \$466,475. This represents a decrease of (\$50,425) over last year's ending balances. The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 41.3% of total general fund revenues. The largest element of taxes is sales and use taxes as it has been for the last several years. It represents 45% of total tax revenues and 18% of total general fund revenues.

As stated earlier, the Town maintains an enterprise fund to account for the business-type activities of the Town. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$469,250 to a final budget of \$561,587. A major contributing factor in the increase was additional park expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The Town of Genola's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$2,168,261 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- Purchase of fire fighting equipment for \$31,049.95.
- Purchase of addition equipment and improvements to Town's Parks for \$26,566.96.
- Maintenance and rebuilding of existing streets within the Town, \$139,031.15
- Purchase of dump truck for \$32,750.00. for roads and water
- Improvements to the Water Distribution System for \$168,670.05

The following table summarizes the Town of Genola's changes in Capital Assets.

Capital Assets

June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Invested in capital assets, net						
Land	\$ 18,640	\$ 18,640	\$ 750	\$ 750	\$ 19,390	\$ 19,390
Building	94,159	94,159		0	94,159	94,159
Equipment	442,162	398,182	49,409	37,409	491,571	435,591
Water Stock			14,071	14,071	14,071	14,071
Improvements			1,789,308	1,622,739	1,789,308	1,622,739
Infrastructure	1,189,597	1,094,917	0	0	1,189,597	1,094,917
Total net assets	<u>\$1,744,558</u>	<u>\$1,605,898</u>	<u>\$1,853,538</u>	<u>\$1,674,969</u>	<u>\$3,598,096</u>	<u>\$3,280,867</u>

Additional information on the Town's capital assets can be found in the notes to this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The General Fund budget for the fiscal year-ending June 30, 2006 reflects an decrease of 18% over the final budget for the fiscal year-ended June 30, 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Genola's finances for all those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Genola, 74 West 800 S., Genola, UT 84655.

TOWN OF GENOLA
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 446,176	\$ 213,235	\$ 659,411
Accounts Receivable, net		24,945	24,945
Property Tax Receivable	46,408		46,408
Sales Tax Receivable	17,886		17,886
Court Receivables	892		892
Prepaid Insurance	5,575		5,575
Capital Assets (net of accumulated depreciation):			
Land	18,640	750	19,390
Buildings	53,026	-	53,026
Equipment	293,545	1,258,029	1,551,574
Water Stock	-	14,071	14,071
Infrastructure	530,200	-	530,200
Total Assets	<u>1,412,348</u>	<u>1,511,030</u>	<u>2,923,378</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	5,553	-	5,553
Deferred Revenue	43,000	-	43,000
Performance Bond Payable - Current	-	1,500	1,500
Total Liabilities	<u>48,553</u>	<u>1,500</u>	<u>50,053</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	895,411	1,271,350	2,166,761
Restricted for:			
Impact Fees	42,997	138,677	181,674
Unrestricted	425,387	99,503	524,890
Total Net Assets	<u>\$ 1,363,795</u>	<u>\$ 1,509,530</u>	<u>\$ 2,873,325</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Revenues & Changes in Net Assets			
	Expenses	Operating		Capital	Primary Government		
		Charges for Services	Grants and Contributions		Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General Government	\$ 120,104	\$ 73,114	\$ -	\$ -	\$ (46,990)	\$ -	\$ (46,990)
Public Safety	140,063	-	11,281	30,731	(98,051)	-	(98,051)
Highways and Public Works	112,714	-	-	110,607	(2,107)	-	(2,107)
Parks and Recreation	126,443	36,753	-	22,100	(67,590)	-	(67,590)
Total Governmental Activities	499,324	109,867	11,281	163,438	(214,738)	-	(214,738)
Business-type Activities:							
Water Fund	126,768	88,864	-	163,500	-	125,596	125,596
Total Business-type Activities	126,768	88,864	-	163,500	-	125,596	125,596
Total Primary Government	\$ 626,092	\$ 198,731	\$ 11,281	\$ 326,938	(214,738)	125,596	(89,142)
General Revenues:							
Property Tax					44,436	-	44,436
Sales and Use Tax					91,540	-	91,540
Franchise Tax					69,040	-	69,040
State Liquor Tax					685	-	685
Unrestricted Investment Earnings					11,774	4,133	15,907
Total General Revenues					217,475	4,133	221,608
Change in Net Assets					2,737	129,729	132,466
Net Assets - Beginning (as restated)					1,361,058	1,379,801	2,740,859
Net Assets - Ending					\$ 1,363,795	\$ 1,509,530	\$ 2,873,325

See accompanying notes to the financial statements

TOWN OF GENOLA
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 185,818	\$ 260,358	\$ 446,176
Receivables (net):			
Property Tax	46,408	-	46,408
Sales Tax	17,886	-	17,886
Court	892	-	892
Prepaid Insurance	5,575	-	5,575
Total Assets	<u>256,579</u>	<u>260,358</u>	<u>516,937</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 5,515	\$ -	\$ 5,515
Payroll Liabilities	38	-	38
Deferred Revenue	44,909	-	44,909
Total Liabilities	<u>50,462</u>	<u>-</u>	<u>50,462</u>
Fund Balances:			
Reserved for:			
Road Impact Fees	24,676	-	24,676
Park Impact Fees	18,321	-	18,321
Unreserved, reported in:			
General Fund	163,120	-	163,120
Capital Projects Fund	-	260,358	260,358
Total Fund Balances	<u>206,117</u>	<u>260,358</u>	<u>466,475</u>
Total Liabilities and Fund Balances	<u>\$ 256,579</u>	<u>\$ 260,358</u>	<u>\$ 516,937</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2005

Total Governmental Funds Balances	\$ 466,475
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	895,411
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Long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>1,909</u>
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Total Net Assets of Governmental Activities	<u><u>\$ 1,363,795</u></u>
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See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 204,814	\$ -	\$ 204,814
Licenses and Permits	34,734	-	34,734
Intergovernmental	131,204	-	131,204
Charges for Services	36,753	-	36,753
Fines and Forfeitures	22,271	-	22,271
Miscellaneous	65,833	6,250	72,083
Total Revenues	<u>495,609</u>	<u>6,250</u>	<u>501,859</u>
EXPENDITURES			
Current:			
General Government	114,361	-	114,361
Public Safety	128,194	-	128,194
Highways and Public Works	200,168	-	200,168
Parks and Recreation	109,561	-	109,561
Total Expenditures	<u>552,284</u>	<u>-</u>	<u>552,284</u>
Excess (Deficit) of Revenues Over (Under)			
Expenditures	(56,675)	6,250	(50,425)
Net Change in Fund Balances	<u>(56,675)</u>	<u>6,250</u>	<u>(50,425)</u>
Net Assets - Beginning	262,792	254,108	516,900
Net Assets - End	<u>\$ 206,117</u>	<u>\$ 260,358</u>	<u>\$ 466,475</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2005

Net Change in Fund Balances of Governmental Funds	\$ (50,425)
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	202
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	<u>52,960</u>
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Change in net assets of governmental activities	<u><u>\$ 2,737</u></u>
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See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Net Assets
Proprietary Fund
June 30, 2005

	Business-Type Activities - Enterprise <u>Water Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 213,235
Accounts Receivable, net	24,945
Total Current Assets	<u>238,180</u>
Noncurrent Assets:	
Land	750
Water Stock	14,071
Water Distribution System	1,544,925
Water Well & Storage Tank	244,383
Equipment and Machinery	49,409
Less: Accumulated Depreciation	<u>(580,688)</u>
Total Noncurrent Assets	<u>1,272,850</u>
Total Assets	<u>1,511,030</u>
LIABILITIES	
Current Liabilities:	
Performance Bond Payable	<u>1,500</u>
Total Liabilities	<u>1,500</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	1,271,350
Reserved Water Impact Fees	138,677
Unrestricted	99,503
Total Net Assets	<u><u>\$ 1,509,530</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Type Activities Enterprise Fund <u>Water Fund</u>
Operating Revenues:	
Charges for Services	\$ 88,864
Operating Expenses:	
Salaries and Benefits	18,534
Maintenance and Supplies	25,950
Utilities	7,818
Insurance	3,800
Payroll Taxes	1,324
Depreciation	63,390
Services	2,145
Other	3,807
Total Operating Expenses	<u>126,768</u>
Operating Income (Loss)	(37,904)
Non-Operating Revenues (Expenses):	
Interest Income	4,133
Federal Grant	127,500
Impact Fees	36,000
Total Non-Operating Revenues (Expenses)	<u>167,633</u>
Net Income (Loss)	129,729
Net Assets - Beginning	1,379,801
Net Assets - Ending	<u><u>\$ 1,509,530</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise <u>Water Fund</u>
Cash Flows From Operating Activities	
Receipts from Customers	\$ 90,028
Payments to Suppliers	(44,844)
Payments to Employees	(18,534)
Net Cash Provided (Used) by Operating Activities	<u>26,650</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(178,569)
Impact Fees	36,000
Performance Bond	(1,500)
Federal Grants	127,500
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(16,569)</u>
Cash Flows From Investing Activities	
Interest Received	4,133
Net Cash Provided (Used) by Investing Activities	<u>4,133</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,214
Cash and Cash Equivalents - Beginning	199,021
Cash and Cash Equivalents - Ending	<u><u>\$ 213,235</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise <u>Water Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ (37,904)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	63,390
(Increase) Decrease in Accounts Receivable	1,164
Total Adjustments	<u>64,554</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 26,650</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Genola (the Town) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Town applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the Town are discussed below.

Reporting Entity

The Town of Genola was incorporated in under the laws of the State of Utah. The Town operates under a Mayor-Council form of government.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY (Continued)

Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the Town receives cash.

The Town reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for financial resources used for the acquisition or construction of major capital improvements (other than those financed by Proprietary Funds).

The Town reports the following major proprietary fund:

The *water fund* accounts for the activities of the Town's water production, treatment and distribution operations.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY (*Continued*)

Activities of this fund include administration, operations and maintenance of the water systems and billing and collection. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

As a general rule, the effect of inter-fund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. Town policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the Town's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY (Continued)

B. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

C. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Infrastructure	20-40
Machinery and equipment	5-10

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY (Continued)

E. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The Town Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

F. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

G. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY (*Continued*)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

J. Restatement of Fund Balance/Net Assets

Contributed capital previously reported on the Enterprise Funds is no longer required with the implementation of GASB 34 and has been reclassified as Net Asset.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 2 – (Continued)

Cost of capital assets	\$1,744,557
Accumulated depreciation	(849,146)
Net adjustment to increase <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i>)	<u>\$ 895,411</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$ 138,659
Depreciation expense	(85,699)
Net adjustment to increase <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ 52,960</u>

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the Town. Budgets are adopted on a basis consistent with generally accepted accounting principles. Although Utah State Law requires the initial preparation of budgets for all Town funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

The Town adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the Town Council in May, the Town administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The Town Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The Town Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the Town modified the budget using the above procedures.

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The Town considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. Town funds are deposited in qualified depositories as defined by the Act. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2005, the Town's custodial credit risk for deposits were as follows:

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2. DEPOSITS AND INVESTMENTS (Continued)

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2005</u>
Regular Checking Account	Insured	<u>\$ 9,582</u>

B. Investments

The Town's investments are managed through participation in the state Public Treasurer's Investment Fund. As of June 30, 2005, the Town had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	42 days average	<u>\$649,829</u>

Investments – Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The Town follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. Town funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Town to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Town considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The Town has no investment policy that would further limit its investment choices.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Total</u>
Receivables:				
Taxes	\$ 64,294	\$ -	\$ -	\$ 64,294
Court	892	-	-	892
Accounts	-	-	24,945	24,945
Total Receivables	<u>\$ 65,186</u>	<u>\$ -</u>	<u>\$ 24,945</u>	<u>\$ 90,131</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 44,909	\$ -

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 18,640	\$ -	\$ -	\$ 18,640
Total capital assets not being depreciated	18,640	-	-	18,640
Capital assets being depreciated:				
Buildings	94,159	-	-	94,159
Machinery and equipment	398,182	43,979	-	442,161
Infrastructure	1,094,917	94,680	-	1,189,597
Total capital assets being depreciated	1,587,258	138,659	-	1,725,917
Less accumulated depreciation for:				
Buildings	38,579	2,554	-	41,133
Machinery and equipment	91,779	56,837	-	148,616
Infrastructure	633,089	26,308	-	659,397
Total accumulated depreciation	763,447	85,699	-	849,146
Total capital assets, being depreciated, net	823,811	52,960	-	876,771
Governmental activities capital assets, net	<u>\$ 842,451</u>	<u>\$ 52,960</u>	<u>\$ -</u>	<u>\$ 895,411</u>

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Water stock	14,071	-	-	14,071
Total capital assets not being depreciated	14,821	-	-	14,821
Capital assets being depreciated:				
Water distribution system	1,378,356	166,569	-	1,544,925
Water well & storage tank	244,383	-	-	244,383
Machinery and equipment	37,409	12,000	-	49,409
Total capital assets being depreciated	1,660,148	178,569	-	1,838,717
Less accumulated depreciation for:				
Water distribution system	379,761	55,921	-	435,682
Water well & storage tank	101,825	5,772	-	107,597
Machinery and equipment	35,712	1,697	-	37,409
Total accumulated depreciation	517,298	63,390	-	580,688
Total capital assets, being depreciated, net	1,142,850	115,179	-	1,258,029
 Business-type activities capital assets, net	 \$ 1,157,671	 \$ 115,179	 \$ -	 \$ 1,272,850

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 5,743
Public safety	35,098
Highways and public improvements	27,976
Parks and recreation	16,882
Total depreciation expense - governmental activities	<u>\$ 85,699</u>
 Business-type activities:	
Water and sewer	\$ 63,390
Total depreciation expense - Business-Type Activities	<u>\$ 63,390</u>
Total depreciation expense	<u>\$ 149,089</u>

NOTE 7 - RESERVED FUND BALANCES

Reserved fund balance comprises amounts which the Town has designated for specific purposes or are amounts held by committees for which the Town has oversight responsibility (Class "C" Road, Road Impact Fees, Water Impact Fees, Park Impact Fees).

General Fund		Enterprise Fund	
Road Impact Fees	\$24,676	Water Impact Fees	<u>\$138,677</u>
Park Impact Fees	<u>18,321</u>		
Total	<u>\$42,997</u>		

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The Town has not incurred a claim in excess of its coverage for any of the past three fiscal years.

NOTE 9 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The government maintains one enterprise fund. The Water Fund accounts for the provision of basic utility services to all citizens. Selected segment information for the year ended June 30, 2005 is as follows:

Condensed Statement of Net Assets

Assets	
Current Assets	\$ 238,180
Capital Assets	<u>1,272,850</u>
Total Assets	1,511,030
 Liabilities	
Current Liabilities	<u>1,500</u>
 Net Assets	
Invested in Capital Assets, net of related debt	1,271,350
Restricted Water Impact Fees	138,677
Unrestricted	<u>99,503</u>
Total Net Assets	<u><u>\$1,509,530</u></u>

NOTE 9 - SEGMENT INFORMATION - ENTERPRISE FUNDS

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

Operating Revenues	
Charges for Services	\$ <u>88,864</u>
 Operating Expenses	
Operating Expenses	63,378
Depreciation	<u>63,390</u>
Total Operating Expenses	<u>126,768</u>
 Operating Income (Loss)	 (<u>37,904</u>)

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Nonoperating Revenues (Expenses)

Interest Income	4,133
Federal Grants	127,500
Impact Fees	<u>36,000</u>
Total Nonoperating Revenues (Expenses)	<u>167,633</u>

Change in Net Assets	129,729
Net Assets – Beginning	<u>1,379,801</u>
Net Assets – Ending	<u>\$1,509,530</u>

Condensed Statement of Cash Flows

Net Cash Provided (Used) by Operating Activities	\$ 26,650
Net Cash Provided (Used) by Capital and Related Financing Activities	(16,569)
Net Cash Provided (Used) by Investing Activities	<u>4,133</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,214
Cash and Cash Equivalents – Beginning	<u>199,021</u>
Cash and Cash Equivalents – Ending	<u>\$ 213,235</u>

NOTE 10 – OTHER DISCLOSURES

The expenditures in the following department of the General Fund exceeded the adopted budget by the amount shown below:

General government	(\$ 774)
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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF GENOLA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Totals</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Taxes	\$ 134,000	\$ 134,000	\$ 204,814	\$ 70,814
Licenses and Permits	30,150	30,150	34,734	4,584
Intergovernmental	105,750	105,750	131,204	25,454
Charges for Services	5,000	5,000	36,753	31,753
Fines and Forfeitures	23,000	23,000	22,271	(729)
Miscellaneous	60,200	63,700	65,833	2,133
Total Revenues	<u>358,100</u>	<u>361,600</u>	<u>495,609</u>	<u>134,009</u>
EXPENDITURES				
Current:				
General Government	100,812	122,443	114,361	8,082
Public Safety	113,363	129,750	128,194	1,556
Highways and Public Works	199,394	199,394	200,168	(774)
Parks and Recreation	55,681	110,000	109,561	439
Total Expenditures	<u>469,250</u>	<u>561,587</u>	<u>552,284</u>	<u>9,303</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	(111,150)	(199,987)	(56,675)	143,312
Net Change in Fund Balance	<u>(111,150)</u>	<u>(199,987)</u>	<u>(56,675)</u>	<u>143,312</u>
Fund Balances - Beginning	262,792	262,792	262,792	-
Fund Balances - Ending	<u>\$ 151,642</u>	<u>\$ 62,805</u>	<u>\$ 206,117</u>	<u>\$ 143,312</u>

See accompanying notes to the financial statements

SUPPLEMENTARY INFORMATION

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Town Council
Town of Genola
Genola, UT

November 30, 2005

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Genola as of and for the year ended June 30, 2005, which collectively comprise the Town of Genola's basic financial statements and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

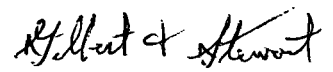
In planning and performing our audit, we considered the Town of Genola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Genola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Town of Genola in a separate letter dated November 30, 2005.

This report is intended solely for the information of management, the Town Council, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH
APPLICABLE UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and Town Council
Town of Genola
Genola, UT

November 30, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Genola for the year ended June 30, 2005, and have issued our report thereon dated November 30, 2005. As part of our audit, we have audited the Town of Genola's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Town received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Law Enforcement (Tax Commission)

The Town all so received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Town of Genola's financial statements.)

Fire Department Assistance Grant (Department of Public Safety)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements
Justice Courts
Uniform Building Code Standards
Impact Fees and Other Development Fees
Forfeitures

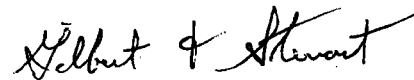
The management of the Town of Genola is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Town of Genola complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

TOWN OF GENOLA
MANAGEMENT LETTER
JUNE 30, 2005

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
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November 30, 2005

Town of Genola
Genola, UT

We have audited the financial statements of Town of Genola for the year ended June 30, 2005 and have issued our report thereon dated November 30, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Town of Genola. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Town of Genola's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Town of Genola are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Town of Genola during the year that were both significant

and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town of Genola's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the Town, either individually or in the aggregate, indicate matters that could have a significant effect on the Town's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Matters for Consideration

1. During our audit, we found that the proper segregation of duties does not exist to provide for a proper internal control structure. Inherent staff limitations placed on small towns makes it difficult to provide for these separations in a cost effective manner. We recommend that, when feasible, the Town provide for proper segregation of duties. However, because in so many instances it is not feasible to provide for these separations, the mayor and town board should constantly be aware of the need for administrative review of transactions and activities of the Town.
2. Utah State Compliance Findings – Current Year

05-1 General Compliance – Budgetary Compliance

Finding: Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that the Highway and Public Works department incurred expenditures in excess of the budget by \$774.

Recommendation: We recommend that the Town keeps expenditures within the approved budget.

City's Response: We concur with the finding. We will work toward budgeting properly and maintaining expenditures within the approved budget.

This information is intended solely for the use of The Town of Genola and the management of the Town of Genola, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART

Certified Public Accountants